Gold

China's not only in the game but about to make a major play!

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In the report issue during 2006 I highlighted, Fan Gang, director of China's National Economic Research Institute, stood in front of a standing-room-only crowd at the World Economic Forum in Davos, Switzerland. He intimated that the U.S. Dollar was no longer a stable currency. It was devaluing all the time, causing continual problems. So the real issue concerns how to change the regime from a U.S. Dollar dominated one to a more manageable reference, say, Euro or Yen... i e have a more diversified system.

Recently China is not alone that is considering a shift away from the US Dollar. Today research indicates that Malaysia is also shifting from the dollar. Today member may be surprised that so is Indonesia, which may not be enough to cause worry, but Thailand has also joined "the dump the dollar" trend. But concern should be shown if any US paper and/ or US based assets is held.

Should the above not concern even those with a stomach for risk, my research has also shown a strong possibility that Japan will join these countries very soon. In fact something that members won't know (because it won't be openly discussed in the media) is that China and Japan have exchanged views very recently on the dollar and their holdings of US treasuries, and who could blame them?

I would also highlight that China and Japan alone own about $906 billion of the $1.1 trillion of U.S. Treasuries held overseas. **What would happen if they reduced their holdings?**

Members should note that a weak dollar is a wasting asset, and must be starting to look like a major liability to the Chinese. Yu Yongding, who sits on the Chinese Central Bank's monetary policy committee, told the China Securities Journal he was worried America would drop interest rates in 2006, which in fact they did, putting pressure on the dollar and the yuan.

His other comment during 2006 was far more serious. He said, "China's economy would take a big hit if the U.S. dollar weakened sharply due to such factors as a bursting of the U.S. property bubble. The loss for China's foreign exchange reserves would be extremely serious."

Both China and Japan are very worried, and they won't delay taking action for long! When they move they will pick up more secure hard assets, and I would predict that this is likely to be Gold. Should they even hint that they will do so, you can forget Gold a target of $1,500; it would spike to a degree not yet seen for this commodity.

How far are we from this scenario? Well, not far since publicly the talk is of China moving more of its currency reserves away from the dollar. Oh, I had almost forgotten to consider the euro, but I doubt the focus will be on the euro since it is also only paper, backed by its own debt problems.

In my next report I will show that the real story is that China is quietly converting those dollars into, you guessed it,…… GOLD!!!!!!!

Any doubt members may have on my forecast may be dispelled by the fact that China recently cashed in about 2.4% of its dollar reserves to buy gold, which has a better track record than the dollar. In fact, gold has a better track record — historically — than any paper currency.

And even more recently, on April 24, 2009, China announced it had steadily grown its gold reserves by 76% since 2003. Not convinced yet? Well, read on!!!

An interesting peace of research I dug up many years ago, on Dec. 28, 2005, more importantly the same day as the first in a series of U.S. yield curve inversions that I mentioned in an earlier report, an economist at China's biggest investment firm, China Galaxy Securities, had quietly hinted China's Central Bank should quadruple its gold reserves in the very near future.

As stated above Japan's central bank has also talked about cranking up its gold reserves. So have the central banks of South Africa, Argentina and Russia. In November 2005, Russia said it would hike up its gold reserves from 5% of total financial reserves to 10%, which is double what it is already holding now.

To achieve this, Russia would have to absorb its own entire gold output for the next three years and the rest of the world would have to go without Russian gold production, adding pressure on the supply demand ratio, i.e. demand increasing while the supply fell short because of the inability of mining output to keep up, as I have highlighted previously.

Any talk on the news about this and the China gold reserve will almost certainly send gold prices through the roof overnight. Get ready to profit on this surge: Buy **RIO Professional Investors Fund.**

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